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ABSTRACT

Policy standards and actions that U.S. colleges and universities can follow concerning South Africa-related investment are discussed, based on a survey of 175 colleges. Investment policy standards include: not investing in companies unless they provide information to shareholders about their business activities in South Africa, not investing in companies unless they sign the Sullivan Principles or an equivalent policy, determining whether companies have implemented and adhered to the Sullivan principles, identifying companies making strategic sales to South Africa (i.e., military or police), refusing to hold investments in banks that make loans to the South African government, prohibiting holding investments in companies that have any operations in South Africa (total divestment), making distinctions about the kind of operations a company undertakes in South Africa, and adopting a deadline for total divestment. Policy actions that can be taken when policy standards have not been met are: contacting the company before divesting, supporting or introducing shareholder resolutions, developing strategies for divestment, managing portfolio impacts of divestment, boycotting goods and services from South African-related companies, managing public relations, and supporting initiatives to help South African students and schools. (SW)

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DEALING WITH DIVESTMENT

by Christopher A. Coons

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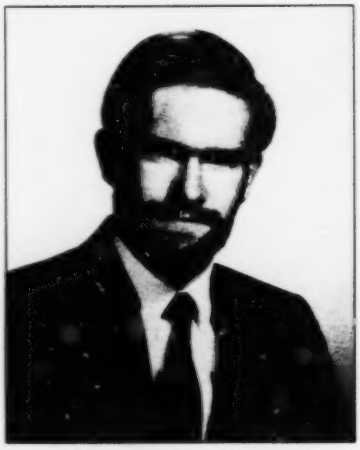

The four questions I will address are: How might a college formulate a South Africa-related investment policy? What might be its components? How might you defend that policy? And, what alternatives are there to a divestment policy?

To put this discussion in perspective, 100 American collegiate institutions have divested $410 million in investments so far. That's very small compared to the 3,300 institutions of higher education in this country. But divestiture has affected about 65 out of the top collegiate 100 endowments in the country; 40 of those have already sold off at least some South Africa-related holdings.

In the spring of 1985, over 1,500 students were arrested in a variety of protests, sit-ins, and demonstrations on campuses across the country. This spring, there have been occupations at Georgetown, Smith, the University of Pennsylvania, Swarthmore, and Reed; shanties have been built at Dartmouth, MIT, Brandeis, the University of Utah, Johns Hopkins, and Stanford. Ten institutions took new divestment actions in February and March alone. The momentum of this activity, fueled by growing unrest in South Africa itself, suggests that divestment will be a major concern again next year on American campuses.

Over the past seven months, I have gathered information on these questions from 175 colleges and universities. What follows comes from that survey, which looked first at student anti-apartheid activism.

Making Policy

Student activists, by and large, are willing to work very hard on this issue. In a surprising number of cases, college administrators told me that today's activists lack a sense of the generational conflict and the acrimonious fervor of the 1960s. Today's activists tend to be much more committed, more interested in presenting rational arguments, and willing to do so if given the opportunity. Prolonged occupations or protests tend to occur only where students feel their interest is disregarded.

Many institutions benefitted from creating study commissions or having open discussions between trustees and the university community, including students. This strategy seems to have brought positive outcomes in quite a few cases and lessened a potential polarization between students and trustees.

A lesson to report is that the more information that is made available to students about the institution's policy, and the more concrete opportunities they are given to discuss it with administrators and trustees (even in private), the more likely it is that a policy on divestment can be formulated without confrontation. This is simple common sense, I think. In most cases, activism emanated from a small number of very vocal students; involving them in the policy-deliberation process, and with the trustees on an individual basis, avoids conflict and humanizes the policy-formation process.

Now let me turn to constructing a divestment policy. Our survey turned up some 170 "policies" that I've separated into policy *standards* and policy *actions*, which are listed in the two sections that follow. You can think of these listings as a Chinese menu: you can take three "standards" from Column A, four "actions" from Column B, and, by combining them, put together a tailored set of options for divestment at your institution.

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> *The Sullivan principles are the most common element found in collegiate investment policies related to South Africa.*

Policy Standards

1. Provide Information. Many institutions have policies authorizing divestment of any company that will not divulge to shareholders information on its South African operations. Logically, a company unwilling to disclose such information is likely to be unwilling to respond to shareholder pressure to change or to reform its actions. This first standard was commonly adopted back in 1977-78, when the debate over divestment was young and a lot of corporations didn't feel it was necessary for them even to discuss their operations in South Africa. Now the majority of American corporations routinely divulge such information to their shareholders.

2. Signing the Sullivan Principles. The Sullivan principles were initiated in 1977 by Rev. Leon Sullivan. They are a code of fair employment standards that requires companies to commit themselves to certain progressive actions in South Africa, such as integrating the workplace, contributing to black community development, and, more recently, to press the South African government to change its policies. The Arthur D. Little Company performs an annual audit of how well American corporations in South Africa comply with the principles and rates them in one of three categories according to their progress. The Sullivan principles are the most common element found in collegiate investment policies related to South Africa: of the top 100 endowed institutions in the country, 62 have a formal policy on South Africa and 47 of those depend on compliance with the Sullivan principles for judging how progressive various corporations are.

Of the 255 American companies with operations in South Africa, 70% have signed the Sullivan principles. So a policy that limits investment to companies that have signed these principles does not eliminate many from a portfolio. The largest multi-national corporations in South Africa including IBM, Mobil, GM, and Ford, have all signed the Sullivan principles.

The International Council for Equality of Opportunity Principles, Inc., Rev. Sullivan's monitoring group in Philadelphia, publishes a list of signatory companies once a year; it summarizes how they stand in the annual rating process. IRRC publishes on a quarterly basis a list of who has *not* signed the Sullivan principles. Using these two publications, implementing a Sullivan standard is quite simple: an institutional manager can easily determine which companies are off limits for investment.

3. The Principles or Their Equivalent. In the early days of the Sullivan principles, a number of companies would not sign because they resented having an outside agency monitor their operations. So a small number of colleges have allowed companies to prove they have a policy *equivalent* to the Sullivan principles.

This standard is difficult to implement. It requires an independent assessment of companies by the university and makes the university more responsible for passing judgment on a company's policies should it divest from a given company.

4. Get a "Good" Sullivan Rating. This is the most favored investment standard right now. It looks beyond the fact of a signature to ask whether companies have implemented and adhered to the principles.

Most blue-chip companies pass this standard, and it is an easy matter to check. Sullivan's group provides ratings for each of the 178 signatories to the principles; only 22 of those companies are in its "category three," meaning inadequate implementation.

5. No Strategic Sales. This standard bars investment in companies making "strategic sales" to the South African government; it is a demanding standard to implement. The South African government refuses to allow corporations to divulge information on what sort of materials they sell to the South African military or police. It therefore requires significant resources and research to enforce such a standard. IRRC is currently trying to develop a database on which companies have sold strategic materials to the government; we've developed a variety of contacts in South Africa to that end but, due to the structure of security laws in South Africa, the information is hard to retrieve.

IRRC Study Now Available

The IRRC has just released Christopher Coons' study, "The Response of Colleges and Universities to Calls for Divestment," which contains detailed information on the investment policies and divestment actions of 175 leading American colleges and universities and provides an overview of the 1985 divestment movement.

Copies of the study may be purchased from IRRC for $100. Write: Investor Responsibility Research Center, Inc., Suite 600, 1755 Massachusetts Ave., NW, Washington, DC 20036; (202) 939-6500.

> ***It is inconsistent to maintain that only those companies with "direct" investments will be excluded from a portfolio, while no excluding the literally thousands of American companies that do business with South Africa.***

This standard might also affect the most attractive of South Africa-related companies, depending on your definitions. If, for example, selling computers, oil, or trucks to the government were deemed "strategic sales," companies such as Mobil, Hewlett-Packard, and General Motors could fall on your prohibited list. Even with these difficulties, some 16 of the top 100 endowed colleges and universities are pursuing such a policy, including Harvard, Minnesota, and Stanford.

6. No Loans. Another policy standard is no loans to the South African government. Many colleges and universities adopted a standard on banks and bank loan policies in 1978-79. However, the September 9, 1985 Reagan Executive Order blocking all new loans to the South African government makes the standard somewhat moot. Only four American banks have outstanding loans to the South African public sector that we know of.

IRRC does publish information on domestic banks that have outstanding loans to the South African public and private sectors. Refusing to hold investments in South Africa-related banks can turn out to affect a much larger portion of a portfolio than a mere stock-divestment standard—colleges and universities can hold certificates of deposit, bankers acceptances, and a whole range of investment instruments that would come into question, and the effects on a college's portfolio could be large.

7. Where Loans, No Deposits. Seventeen of the institutions we surveyed refuse to make deposits in those banks that have loans to the South African government. As mentioned earlier, such a policy hardly ties an institution's hands, since only three or four of the largest multi-nationals make such loans.

8. Total Divestment. This standard would prohibit holding investments in companies that have any operations in South Africa, and it is fast gaining ground; more than half of the 39 colleges and universities that have "totally divested" have done so in the last six months.

One of the difficulties with this standard is its definition. It is inconsistent to maintain that only those companies with "direct" investments will be excluded from a portfolio, while not excluding the literally thousands of American companies that do *business* with South Africa (through trade, licensees, or distributorships). However, a policy of holding no investments in companies with "direct" investments in South Africa at least can be implemented. *Foreign Investment in South Africa*, an IRRC publication, details all of the American, British, and Canadian companies with South African operations and lists the number of employees, sales and assets figures, major products, Sullivan rating, and location of South African subsidiaries.

A total divestment policy requires deliberation about how it will be implemented and how strict the standard will be. Often, treasurers are handed a one-sentence policy and asked to implement it, and great confusion results. A total divestment policy should be phased in over several years to minimize its negative impacts on a portfolio; it can eliminate a significant portion of a portfolio, including many attractive investment vehicles. Just seven of the top 100 endowment universities have adopted total divestment policies.

9. Functional Exceptions. There are standards short of a total, blanket divestment. For example, Columbia and others except news organizations from divestment because their work in South Africa contributes to a wider understanding of apartheid.

A near-total divestment standard recently adopted by several colleges is "no significant business in South Africa." This limits divestiture to companies with a "significant" presence (say, more than 25 employees or $10,000 in assets) in South Africa. Some companies have very small offices in South Africa with only three employees.

10. Phased Divestment/Sullivan Deadline. This last policy standard comes from the fact that the Sullivan principles may come to an end in a year or so. Rev. Sullivan has noted that it has been ten years since the principles were put in place. In May 1985, he declared that if apartheid has not in fact ended within 24 months (meaning May 1987) he will call for a total U.S. economic embargo against South Africa, including the withdrawal of all U.S. corporations. We can assume that he will then stop supporting the Sullivan principles; what happens to them then, we really can't predict.

This development makes it difficult to plan any long-term investment policy linked to the Sullivan principles. As a result, a number of colleges and universities who tied their investment policies to the principles have now adopted the same deadline for total divestment. In the last six months, Amherst, the University of Louisville, Bryn Mawr, Colby, Haverford, Minnesota, Teachers College, and the University of Pennsylvania have stated that they will gradually divest holdings in South Africa-related companies until the May 1987 deadline, at which time they will consider whether to retain *any* holdings in such companies. This

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"A "general ethical investment policy" is not limited to South Africa, but states that the institution won't hold investments in any companies causing "substantial social injury."

approach has the benefit of increasing pressure on South Africa-related companies while still allowing time for change. The eight institutions that have adopted this deadline have committed themselves to divest a combined total of $150 million dollars by 1987.

11. No South African Holdings. A policy of not holding investments in either a South African company or in debt instruments of the South African government has been adopted in a number of places. This standard doesn't affect any collegiate investment portfolio we've ever heard of—few American universities have a portfolio of such size that they would invest in South African stocks. The standard is, however, a way of pointing out that colleges and universities don't hold investments in South African companies or in the South African government.

12. No Holdings by Size. A standard that's been adopted by several institutions prohibits investing in companies that have a specified amount of business in South Africa, say 10% of their assets or 10% of their sales. No American companies have more than one or two percent of their assets or sales in South Africa that we know of, so this policy standard would have no effect on most college or university portfolios.

13. Ethical Investing. This policy standard has been widely adopted. A "general ethical investment policy" is not limited to South Africa, but states that the institution won't hold investments in any companies causing "substantial social injury." This is much less of a formula policy, but requires a lot more interpretive work on the part of the institution. It requires forming a committee to define standards for "substantial social injury," and it makes the university more clearly responsible for passing judgment on the policies of a particular company by divesting holdings in that company.

Policy Actions

Let's now go to the other side of the Chinese menu—the variety of policy *actions* that can be taken when policy standards have not been met.

1. Contact the Company. This is a fairly obvious action to take, easily done, but often overlooked. It makes little sense to have a policy that automatically or selectively divests without contacting the companies involved. Contacting a company before divesting gives it an opportunity to argue its case while contributing to the very pressure for change in South Africa that divestment is supposed to create.

2. Support or Introduce Shareholder Resolutions. One of the frequent arguments made by administrations is that divestment *avoids* responsibility, that it is a washing of the hands, that instead one should use the college's position as a shareholder to influence the conduct of a company. It is in fact quite difficult to file resolutions, but not at all difficult to *vote* on them. One of IRRC's major functions is providing the information that makes informed proxy voting possible. Proxy-issue reports are available on all of the major South Africa-related social issues; proxies that come up every year make it possible for a campus committee to discuss, relative to its own investment standards, which proxies will be exercised.

Shareholder resolutions have actually been quite successful in recent years in changing corporate policy. In the 1986 proxy season, 14 U.S. corporations agreed to sign the Sullivan principles in return for having shareholder resolutions withdrawn. The percentage of success has gone up remarkably in the last two years. At Chesebrough-Pond's last year, management opposed a resolution calling on them to sign the principles, but 23% of the shareholders supported the resolution. Only a few resolutions in recent years have achieved anywhere near that support.

It is possible to sponsor a shareholder resolution; a number of institutions, including Oberlin, Minnesota, and Wesleyan, have attempted this. Recently, TIAA/CREF has gone into this field; it is possible to co-sponsor resolutions with any of the large pension systems currently proposing shareholder resolutions.

3. Strategies for Divestment. When discussing divestment, it is important to have a clear sense of what is being talked about. What holdings will be affected—merely stocks? How about bonds? Commercial paper? What eventually comes into issue is the *aim* of divestment itself.

As Pifer mentioned, divestment can be seen either as a *moral disengagement* from a tainted investment, or as a *political statement* attempting to modify the behavior of the South African government. If divestment is viewed as a moral disengagement, then extending divestment beyond equities to bonds and paper is a rational consequence.

Should an institution announce to the public the specific holdings it will divest? At least one-third of the institutions I surveyed have *not* made the content of their divestment actions public; this makes sense if the divestment is a moral disengagement. But it makes *no* sense if divestment is conceived as a political statement trying to influence change.

I'm not aware of any example of a corporation denying a major grant or withdrawing support from a college or university because of a divestiture.

4. Managing Portfolio Impacts. The impact of divestment on portfolio performance was studied by the director of the South Africa Review Service at IRRC. The study, released in January 1985, analyzed all major studies that have been done on this question; its conclusion was that divestment does, indeed, have short term and long term costs, raising portfolio-transaction costs, liquidity costs, and research costs. However, it is possible for managers of a relatively small portfolio, under $100 million in size, to divest over an extended period of time and avoid any real performance losses, and to hold related costs to the very small thousands of dollars.

5. Boycott Goods and Services. This standard prohibits the purchase of goods or services from South African-related companies. As Alan Pifer points out, there's a certain moral inconsistency in divesting equities as a way of distancing oneself from a company without going on also to refuse gifts or to buy goods or services from those same companies. A couple of colleges and universities have discussed adopting this standard. Grinnell has, in fact, adopted such a standard, and is trying to implement it. As a standard, this step could be an expensive option, and difficult to enforce, but would have the strongest potential impact on companies as it cuts into their sales. Grinnell has divested its holdings in MGM; now it will ban MGM films from being shown on campus. One can imagine how difficult it would become to run a college under a policy forbidding the purchase of IBM typewriters, Ford or GM trucks, GE lightbulbs, Coca Cola, and so on.

6. Managing Public Relations. After a vote, an institution needs to defend its policy. Part of my survey asked what the response has been from alumni and corporations. The fact that many of these institutions were unwilling to discuss this with us for the record or name the companies they had divested from, demonstrates their fear of losing support from corporations and alumnae. So far, that fear has largely been unfounded. In our survey, with 70 institutions describing the response they had, thirty said they had no response to divestment actions; 15 said comments were minimal, either for or against; 15 had a few negative comments. Only ten of the 70 had actually had a donor withdraw support. I'm not aware of *any* example of a corporation denying a major grant or withdrawing support from a college or university because of a divestiture.

However, there may well be a corporate backlash ahead. The absence of information about divestment may have kept companies so far from punishing colleges that divest. The corporations whose stock has been divested so far have largely been companies that refuse to sign the Sullivan principles or to release information about their activity in South Africa.

Soon, though, as colleges and universities move closer to total divestment policies affecting leading multi-national corporations—which have spent large sums on implementing the Sullivan principles and on public relations efforts—such corporations might take greater offense at the lack of appreciation universities may show for their efforts. The best defense may be a good offense in defending one's policy: make the policy public, centralize information about the policy and responsibility for public relations, communicate with your alumnae, and the like.

7. Educational Initiatives. It's important to conclude by connecting this listing with the initiatives described in the Moran/Volmink paper. That is, an increasing number of colleges and universities have gone beyond divestiture to look at a range of options that coincide with the traditional role of colleges and universities as educators.

Scholarships offer an interesting opportunity to link the divestment issue with student concerns about educating South Africans. At Syracuse last fall, the university offered to establish a scholarship fund for black South Africans; it will match dollar for dollar any contributions raised by student activist groups. Student activists have organized fund raisers, dances, and rock concerts, while the faculty adopted a voluntary salary-reduction plan. At Colorado, students are asked to add $1.00 to their registration fee, to be matched by the University and go into a South Africa-related scholarship fund. At Minnesota, dividend earnings from South African-related companies will be funneled into a South African student scholarship fund. Cornell and Kansas have established a separate endowment for divestment, which invests in U.S. government securities and municipal bonds, and to which alumni are encouraged to contribute. "South Africa-free" pension funds are now being offered by Brown and the University of California; they allow faculty members to channel their pension funds into something like the Calvert Social Investment Fund. And, finally, a campus education fund could be established, as at Harvard, making money available for South Africa-related speakers, films, subscriptions, and internships. ■